

Joint-Stock Company
"Liepājas metalurģs "
Reg.nr. 40003014197

Annual Report

For the year ended 31 December 2006

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INFORMATION ON A COMPANY

1. Full name of company: Joint-Stock Company "Liepājas metalurģs"
2. Legal status of company: public joint-stock company
3. Registration number of State registration, place, date: 40003014197
LR Komerģial register, 07.08.2003.
4. Taxpayer registration number: 40003014197
5. VAT payer registration number: LV 40003014197
6. Legal address and phone number of company: Brivibas street 93
Phone: +371 3455921
7. Office address and phone number: Brivibas street 93
Phone: +371 3455921
8. Type of business activity: Steel-making
9. Year of account: 2006
10. Managing Director
Leons Ptichkins
Position: Member of Board
11. Information on stockholders: Joint-Stock Company is a public joint-stock company, the biggest stock-holders are:
- Sergejs Zaharjins
Proportion (%) of stocks (shares) 49%
- Ilja Segals
Proporcion (%) of stocks (shares) 20,80%
- Kirovs Lipmans
Proportion (%) of stocks (shares) 17,70%
12. Members of the Board (also the members who left position or in other way ended their job during the year of account):
Valerijs Terentjevs
Ilja Segals
Leons Ptichkins
13. The name of the bank, code, operating account number: JSC "SEB Unibanka"
Account number: LV96UNLA0012002467028
14. Chief Accountant: Ligita Berzupe
180451-10832
15. Auditor, number of license, address, phone number: JSC "BDO Invest Riga"
Address: Pulkveza Brieza street 19/1, Riga
Aivars Putnins
Number of license: 123
16. Average number of employees: 2700

Management Statement of the JSC "Liepājas Metalurgs"

Statement regarding the management responsibility.

The JSC "Liepājas metalurgs" (in this text – the Company) Council and Board are responsible for the preparation of the Company and its affiliated enterprises (in this text – the Consolidated Group) consolidated financial statements.

The Financial Statements represent the true picture for the Consolidated Group financial position as of December 31, 2006 as well as the results of its operations and cash flow for the year 2006. The above-mentioned financial statements are prepared in accordance with the requirements of the International Accounting Standards for the financial statements, which are acceptable in the European Union. During the preparation of the financial statements the management:

- has been using and applying the appropriate accounting methods
- has been issuing justified and conservative conclusions and estimates
- has been adhering in accordance with the principle of the management's continuation

Management statement for operational activity.

The Net Turnover of JSC "Liepājas metalurgs" in the year 2006 was 192.2 million LVL (approx. EUR 273.48 mill.), which was 37.9 million LVL (approx. EUR 53.93 mill.) more than in the year 2005. The operational activity of the JSC "Liepājas metalurgs" during the report period resulted in a profit of 9.5 mill. LVL (approx. EUR 13.52 mill.), which was 5.3 mill. LVL (approx. EUR 7.54 mill.) more than in the previous year. The profit and net turnover increase was primarily attributed to the price increase in raw materials and finished goods sold. However, the price increase for the finished goods was 7.2% greater than the price increase for raw materials.

In the review period the raw material purchase market has not changed, but the sale of finished goods increased in the domestic market, in the Baltic States region, and Russia.

Considering the outdated technology and the economically non-feasible market demand on nails and wire, on the July 1, 2006 the Company closed down its metal ware shop.

During the report period, there were established the following affiliated enterprises:

- Stock Company "Sātiņi LM"
- Limited Liability Company "SMA LM Mineral"
- Stock Company "Rūķis LM"

The Company invested 10.2 mill. LVL (approx. EUR 14.5 mill.) in its development during the report period. The Company finished commissioning of the new Continuous Casting Machine (CCM) in its meltshop and mastered the skills on the newly installed equipment.

In the rolling mill production shop, the construction of a new automated packing line has begun in the corresponding building extension. The new technology will set the packing production workers free from the heavy manual labor.

JSC "Liepājas metalurģs" major tasks for the year of 2007 include:

- Continue its meltshop modernization and prepare for the Electric Arc Furnace (EAF) and Ladle Furnace (LF) installation;
- Commission and achieve the final acceptance of the new automated packing line;
- Continue the development of the new rolling mill (RM) program documentation.

In 2007, the Company will continue increasing the finished goods quality. The Company will also continue its work in the product certification areas. One of the goals is to promote and contribute to the invention of the Latvia's national standards on rebar. These standards would establish and govern the rebar quality benchmark in the Republic of Latvia.

No important events are happened from the end of the reporting period to this day, which may have an effect on the assessment of Annual report.

Joint-Stock Company "Liepājas metalurģs"
Chairman of the Board

/V.Terentjevs/

PROFIT AND LOSS STATEMENT

FOR 12 MONTHS OF THE YEAR 2006

No.	Parameter designation	Enclosure Number	At the end of the report period LVL	At the end of the report period EUR	12 months 2005 LVL	12 months 2005 EUR
1	2	3	4		5	6
1	Net turnover	7,8	192246290	273541827	154295000	219542006
2	Production costs of goods sold	9	-162663862	-231449824	-136846083	-194714434
3	Gross profit or loss (from turnover)		29582428	42092003	17448917	24827572
4	Sales costs	10	-5964696	-8486998	-4676741	-6654403
5	Administration costs	11	-7782776	-11073893	-7489352	-10656388
6	Other operating income	12	3570357	5080160	9724841	13837202
7	Other operating costs	13	-7198587	-10242667	-11460504	-16306828
8	Interest income and other similar income	14	204189	290535	214341	304980
9	Interest payments and similar expenses		-454594	-646829	-289226	-411532
10	Profit or loss before extraordinary items and taxes		11956321	17012312	3472276	4940604
11	Income tax for the reporting period		-1658180	-2359378	-96251	-136953
12	Deferred tax		-478676	-681095	1146667	1631560
13	Other taxes		-352189	-501120	-365088	-519473
14	Reporting period profit or loss after taxes		9467276	13470720	4157604	5915738

Chairman of the Board _____ *V.Terentjev*

In the Financial Statements the LVL amounts were converted into EUR by applying the Bank of Latvia exchange rate at EUR 0,702804 (divide)

The calculations of the Debtors (Accounts Receivables) and Creditors (Liabilities) values applied the Bank of Latvia exchange rate of 31 December 2006 (USD 0,536 (divide); EUR 0,702804 (divide)).

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0,5575 per share

JSC LIEPĀJAS METALURGS

BALANCE SHEET

FOR 12 MONTHS OF THE YEAR 2006

ASSETS	Enclosure Number	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
I.LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Other intangible investments		72625	103336	89455	127283
I. TOTAL:		72625	103336	89455	127283
II. Fixed assets					
1. Land, buildings and constructions and long-term sites		26716731	38014483	29678574	42228806
2. Long-term investments in rented fixed assets			0	25811	36726
3. Technological equipment and machinery		20371570	28986133	21404538	30455914
4. Other fixed assets and inventory		2070765	2946433	1853575	2637400
5. Fixed assets formation and costs of unfinished construction sites		2080147	2959783	1460422	2077993
6. Advance payments for fixed assets		698621	994048	1079357	1535787
II. TOTAL:	1	51937834	73900880	55502277	78972625
III. Investment properties					
1. Investment properties		3718574	5291054	0	0
III. TOTAL:					
IV. Long-term financial investments					
1. Investments in the related companies (subsidiaries)		4930626	7015649	4314626	6139160
2. Loans to the related companies (subsidiaries)		3565794	5073668	3582563	5097528
3. Share in the capital of associated companies		571843	813659	558343	794451
4. Other loans		125677	178822	115949	164981
IV. TOTAL:	2	9193940	13081798	8571481	12196119
Section 1 total amount:		64922973	92377068	64163213	91296027
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		11000259	15651958	10602962	15086656
2. Unfinished products, Work in Process		1179043	1677627	369284	525444
3. Finished products and goods for sales		9916935	14110527	6819805	9703708
4. Incompleted orders		1128	1605	359	511
5. Advance payments for goods		2068409	2943081	2424243	3449387
6. Labour animals and productive animals			0		0
I. TOTAL:		24165774	34384799	20216653	28765706
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		5094786	7249227	1750438	2490649
2. Debt of related companies (subsidiaries)		924560	1315530	1280980	1822670
3. Debt of associated enterprises		36984	52623	32596	46380
4. Other debtors (accounts receivable)		1781275	2534526	4046800	5758078
5. Prepaid expenses		63905	90929	52570	74800
II. TOTAL:	3	7901510	11242836	7163384	10192577
III. Short-term financial investments					
III. TOTAL:		0	0		0
IV. Cash					
IV. TOTAL:		3716089	5287518	1396446	1986964
Section 2 total amount		35783373	50915153	28776483	40945246
TOTAL ASSETS		100706346	143292221	92939696	132241274

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	31.12.2006 LVL	31.12.2006 EUR	31.12. 2005 LVL	31.12. 2005 EUR
1. SHAREHOLDERS'EQUITY EQUITY					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		25274484	35962351	26073458	37099188
3. Reserves: a) reserves stipulated by law			0	346579	493137
4. Reserves: d) other reserves		12491727	17774126	7987544	11365251
TOTAL:		12491727	17774126	8334123	11858389
5. Retained earnings a) undistributed profit from the previous years			0		0
5. Retained earnings b) undistributed profit of the reporting year		9467276	13470720	4157604	5915738
section 1 total amount:		64214520	91369030	55546218	79035148
2. PROVISIONS					
1. Provisions for anticipated taxes		1411009	2007685		0
2. Other provisions		4893992	6963523	3787773	5389515
section 2 total amount:		6305001	8971208	3787773	5389515
3. LIABILITIES (Accounts Payable)					
I. Long-term Creditors (accounts Payable).					
I. TOTAL:		0	0	0	0
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		9145275	13012554	9439940	13431825
2. Other loans		1783024	2537015	1607834	2287742
3. Advance payments received from customers		977215	1390452	496250	706100
4. Suppliers and contractors trade account payable		16124797	22943519	20303321	28889023
5. Accrued liabilities (Payable bills of exchange)		116104	165201	0	0
6. Payable (debt) to related companies (subsidiaries)		32498	46240	391617	557221
7. Payable (debt) to associated companies		46811	66606	19622	27920
8. Taxes and state social insurance payments	4	1028008	1462724	597248	849807
9. Other liabilities		933093	1327672	749873	1066973
II. TOTAL:		30186825	42951982	33605705	47816610
Section 3 total amount:	5	30186825	42951982	33605705	47816610
TOTAL LIABILITIES AND EQUITY		100706346	143292221	92939696	132241274

Chairman of the Board

V.Terentjev

JSC "Liepājas metalurģs "

**CASH FLOW STATEMENT (by direct method)
for 12 Months of the year 2006**

	Reporting year		12 months 2005	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	204498993	290975852	152802185	217417922
Cash received from other business activities	691275	983596	498817	709753
VAT overpayment received	10377835	14766329	6689188	9517857
Cash paid to suppliers and employees	-192503732	-273908134	-156191096	-222239908
<i>Cash received from the core business activity</i>	<i>23064371</i>	<i>32817643</i>	<i>3799094</i>	<i>5405624</i>
Interest payment	-417658	-594274	-288664	-410732
Corporate income tax payment	0	0	-141853	-201839
Other tax payments	-9098498	-12945996	-219099	-311750
<i>Net cash flow from the core business activity</i>	13548215	19277373	3149478	4481303
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of subsidiary company in net cash				0
Acquisition of fixed assets and intangible assets	-9933662	-14134328	-13775180	-19600315
Sale of fixed assets and intangible assets	76170	108380	482941	687163
Long-term credit for students of JSC "LM" and other loans	-6880	-9789	-12271	-17460
Other loans granted	-140000	-199202	0	0
Investments in related companies (subsidiaries)	-22500	-32015	-123176	-175264
<i>Net cash flow from investment operations</i>	-10026872	-14266954	-13427686	-19105876
CASH FLOW FROM FINANCING ACTIVITIES				
Short term borrowings in net value (credit line)	-152461	-216932	-1644453	-2339846
Long term borrowings		0		0
Paid liabilities for financial leasing	0	0	-20001	-28459
Loans to associated companies	-701000	-997433	-70000	-99601
Repayment of loans and received interests	580415	825856	37329	53114
Other investments (sponsorship)	-776957	-1105510	-238533	-339402
<i>Net cash flow from financial activities</i>	-1050003	-1494020	-1935658	-2754193
Result of foreign currency exchange rate fluctuations	-151697	-215845	-13186	-18762
Net growth of cash and its equivalents	2319643	3300555	-12227052	-17397528
Cash and its equivalents at the beginning of accounting period	1396446	1986964	13623498	19384491
Cash and its equivalents at the end of accounting period	3716089	5287518	1396446	1986964

JSC "Liepājas metalurģs"

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, LVL

	Share capital	Share premium	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As of 31.12.2004	16981033	26745272	346579	3679144	4308400	0	52060428
Previous year profit put in reserves				4308400	-4308400	0	0
Undistributed profit of the reporting period					4157604		4157604
Increase of fixed capital		0					0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-671814					-671814
As of 31.12.2005	16981033	26073458	346579	7987544	4157604	0	55546218
Previous year profit put in reserves				4157604	-4157604		0
Undistributed profit of the review period					9467276		9467276
Increase of fixed capital							0
Increase of revaluation reserve							0
Reserves distribution			-346579	346579			0
Written-off revaluation reserve		-798974					-798974
As of 31.12.2006	16981033	25274484	0	12491727	9467276	0	64214520

Reserves were established in accordance with the shareholders decisions

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, EUR

	Share capital	Share premium	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As of 31.12.2004	24155097	38044484	493000	5233491	6128592	0	74054664
Previous year profit put in reserves				6128592	-6128592	0	0
Undistributed profit of the reporting period					5915735		5915735
Exchange rate difference	6736	10609	137	3171			20653
Written-off revaluation reserve		-955905					-955905
Increase of revaluation reserve							
As at 31.12.2005	24161833	37099188	493137	11365254	5915735	0	79035147
Previous year profit put in reserves				5915735	-5915735		0
Undistributed profit of the review period					13470720		13470720
Increase of revaluation reserve							0
Exchange rate difference							
Reserves distribution			-493137	493137			
Written-off revaluation reserve		-1136838					-1136838
As of 31.12.2006	24161833	35962350	0	17774126	13470720	0	91369029

**7. Net turnover (revenue) by products
for 12 months of the year 2006**

Product Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Rolled steel	187081161	266192510	144135546	205086405
Wire	1172961	1668973	5065751	7207914
Nails	310031	441134	1489485	2119346
Consumer goods	8362	11898	12514	17806
Castings	2390944	3402007	2111668	3004633
Services	240406	342067	401893	571842
Sold steam, gCal	15309	21783	15160	21571
Medical department	712365	1013604	547720	779335
Transportation services	108145	153876	406391	578242
Slag	206606	293974	108872	154911
TOTAL	192246290	273541827	154295000	219542006

JSC " Liepājas metalurģs "

**8. Net turnover by geographic markets
for 12 months of the year 2006**

Market	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Latvia	20259581	28826787	20066273	28551734
Lithuania	11544641	16426544	10986490	15632367
Estonia	6569064	9346936	3647078	5189324
European Union countries	109681495	156062707	99621161	141748142
USA	0	0	7596112	10808294
Russia	15024207	21377521	2328206	3312739
Other third countries	29167302	41501332	10049680	14299406
Total	192246290	273541827	154295000	219542006

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**9. Production costs of sold goods
for 12 months of the year 2006**

Cost Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Materials	122827395	174767638	104391420	148535609
Salaries and wages	10963364	15599462	9139380	13004166
Social benefits deductions	2588940	3683730	2161710	3075836
Energy resources	13634285	19399840	11136909	15846394
Depreciation	5184169	7376408	4610735	6560485
Other costs	7465709	10622747	5405929	7691944
Total	162663862	231449824	136846083	194714434

**10. Sales costs
for 12 months of year 2006**

Cost Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Packing materials	159830	227418	181827	258717
Transportation costs	1022119	1454344	897282	1276717
Freight	2932692	4172845	1306118	1858438
Port handling charges	1166878	1660318	1911966	2720483
Advertising and marketing costs	87898	125068	55613	79130
Other sales costs	34921	49688	62664	89163
Product certification	191940	273106	194849	277245
Goods and transportation insurance	42318	60213	9103	12952
Costs related to L/C and factoring transactions	326100	463998	57319	81558
Total	5964696	8486998	4676741	6654403

JSC " Liepājas metalurģs "

**11. Administration costs
for 12 months of the year 2006**

Costs Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Salaries and social costs	5330040	7583964	5073436	7218849
Communication costs	152169	216517	155436	221166
Office supplies and office maintenance costs	1273770	1812411	1045944	1488244
Legal and auditing fees	222595	316724	250644	356634
Presentation costs	107570	153058	118290	168312
Depreciation of fixed assets	481813	685558	456833	650015
Traveling expenses	127781	181816	129171	183794
Management training	18082	25728	210154	299022
Costs for bank account services	62383	88763	34836	49567
Costs related to stockholders	6573	9353	14608	20785
Total	7782776	11073893	7489352	10656388

6. ACCOUNTS PAYABLE (CREDITORS)

CREDITORS	As of 31.12.2006		As of 31.12.2005	
	LVL	EUR	LVL	EUR
Short-term borrowing from credit institutions (credit line)	5762993	8200000	5915324	8416748
Credit interests	36935	52554	0	0
Borrowings from credit institutions	3345347	4760000	0	0
(letter of credit)	0	0	3524616	5015077
Short-term debt from "Hanza leasing"	0	0		0
Advance payments	977215	1390452	496250	706100
Other borrowing (factoring)	1783024	2537015	1607834	2287742
Debts to suppliers and contractors	16124797	22943519	20303321	28889023
Incl. Materials and gas	3946159	5614878	5106192	7265457
Incl. Services	703929	1001601	911063	1296326
Incl. Scrap, various services related to scrap delivery, processing	1251281	1780412	1659540	2361313
Incl. Fixed assets	267582	380735	262900	374073
Incl. Medical department creditors	2874	4089	2774	3947
Incl. Settlements with enterprises and other business partners - non-residents	9794927	13936926	12332540	17547624
Incl. Other Creditors	158045	224878	28312	40284
Debts to related enterprises	32498	46240	391617	557221
Debts to associated enterprises	46811	66606	19622	27920
Taxes and social insurance payments	1028008	1462724	597247	849806
Incl. State tax	681	969	1001	1424
Incl. Residents' Income tax	320209	455616	276600	393566
Incl. Real estate (land) tax	0	0	0	0
Incl. Social Security tax	398829	567483	294098	418464
Incl. Packing tax	2220	3159	681	969
Incl. Nature resources tax	20287	28866	24867	35383
Incl. Corporate Income tax	285299	405944	0	0
Incl. VAT	483	687	0	0
Other creditors (liabilities)	933093	1327672	749874	1066975
Incl. Payments for salaries	904312	1286720	694202	987760
Incl. Deductions from salaries	28781	40952	55672	79214
Deferred income	0	0	0	0
Accrued liabilities	116104	165201	0	0

Incl. Deferred tax	0	0	0	0
Incl. Tax savings for unused vacations	0	0	0	0
Incl. Accrued liabilities to suppliers	116104	165201	0	0
Unpaid Dividends	0	0	0	0
Total Creditors:	30186825	42951982	33605705	47816610

**12. Other operating income
for 12 months of the year 2006**

Income Description	For 12 months of year 2006		For 12 months
	LVL	EUR	LVL
Sale of current assets	1240831	1765543	2895342
Transit cargo income	8850	12592	1500602
Sale of fixed assets and liquidation	64596 38444	91912 54701	482941 11154
Income from fixed assets revaluation	77377	110098	0
Currency exchange income	1104056	1570930	1722501
Received fines	19803	28177	11357
Written-off revaluation reserve of fixed assets	798974	1136838	671814
Bad debt recovery	65205	92778	1393964
Other income from operating activity	152221	216591	376928
Income from privatization certificates	0	0	122118
Income from the savings reduction	0	0	536120
Total	3570357	5080160	9724841

of year 2005
EUR
4119701
2135164
687163
15871
0
2450898
16160
955905
1983432
536320
173758
762830
13837202

JSC " Liepājas metalurģs "

**13. Other operating costs
for 12 months of the year 2006**

Costs Description	For 12 months of year 2006		For 12 months
	LVL	EUR	LVL
Sales costs of current assets	1001463	1424953	2615031
Transit cargo expenses	11184	15913	1926428
Costs related to the sale and liquidation of fixed assets	91116 297230	129646 422920	563671 201683
Fixed Assets value decrease	89325	127098	369824
Currency exchange loss	1565285	2227200	3278583
Costs of reserve establishment	2360000	3357977	1625241
Paid fines	54610	77703	1691
Sponsorship and other costs	1109932	1579291	484133
Compensation for damage and other allowances	351058	499511	249262
Other costs	247448	352087	130017
Costs of infrastucture maintenance	19936	28366	14940
Total	7198587	10242667	11460504

of year 2005
EUR
3720854
2741060
802032
286969
526212
4665003
2312510
2406
688859
354668
184998
21258
16306828

JSC " Liepājas metalurģs "

**14. Interest income
for 2006**

Income	2006		2005	
	LVL	EUR	LVL	EUR
Income from loans to business persons	162113	230666	24827	35326
Income from bank accounts	23845	33928	14101	20064
Income from deposit investments	18231	25940	175413	249590
Total Interest Income:	204189	290535	214341	304980

On 31.12.2006	152664	2380296	0	12058805	1236027	0	0	15827792
Balance Value 31.12.2005	89455	29678574	25811	21404538	1853574	1460422	1079358	55591732
Balance Value 31.12.2006	72625	26716731	0	20371570	2070765	2080147	698621	52010459

Properties are pledged to JS Parex Banka

Investment properties

On 01.01.2006	LVL
Moved from Fixed Assets	3899252
Written-off depreciation	-258055
Revaluated profit or loss	77377
Investment properties Balance on 31.12.2006	3718574

On 31.12.2006	217221	3386855	0	17158134	1758708	0	0	22520918
Balance Value 31.12.2005	127283	42228807	36726	30455913	2637398	2077993	1535788	79099908
Balance Value 31.12.2006	103336	38014485	0	28986132	2946433	2959783	994050	74004219

Investment properties

On 01.01.2006	EUR
Moved from Fixed Assets	5548136
Written-off depreciation	-367179
Revaluated profit or loss	110098
Investment properties	
Balance on 31.12.2006	5291055

JSC LIEPĀJAS METALURGS

2. Long-Term financial investments movement description for year 2006

	Ownership of Related Companies (Subsidiaries)		Ownership of Associated Companies (Subsidiaries)		Other Securities and Investments		T
	LVL	EUR	LVL	EUR	LVL	EUR	
Beginning Value 31.12.2005	4314626	6139160	558343	794451	3698512	5262508	8571481
Acquired	616000	876489	13500	19209	0	0	629500
Lent	0	0	0	0	722267	1027693	722267
Repriced (-)	0	0	0	0	-187143	-266280	-187143
Written-off	0	0	0	0	-14492	-20620	-14492
Moved to another item	0	0	0	0	-527673	-750811	-527673
End Balance on 31.12.2006	4930626	7015649	571843	813659	3691471	5252490	9193940

TOTAL

EUR

12196118.69

895698

1027693.354

-266280

-20620

-750811.037

13081798.05

3. ACCOUNTS RECEIVABLE (DEBTORS)

DEBTORS	As of 31.12.2006		As of 31.12.2005	
	LVL	EUR	LVL	EUR
Customers and affiliated companies debts	6056330	8617381	3064014	4359699
Incl. Debts of buyers and customers	3509284	4993261	1750438	2490649
Incl. Debts of related companies (subsidiaries)	156283	222371	501256	713223
Loans to related companies	768277	1093160	779724	1109447
Incl. Debts of associated enterprises	36984	52623	32596	46380
Incl. Debts of buyers with factoring activities (doubtful debtors debt)	1585502	2255966	0	0
	/516572/	/735014/	/439122/	/624814/
Other debtors	1781275	2534526	4046800	5758078
Incl. Provision for VAT and paid VAT	148254	210946	32347	46026
Incl. Advance payments	7270	10344	14606	20782
Incl. VAT budget overpayments	1445765	2057138	1527168	2172964
Incl. Debt for caused damages to the enterprise	151144	215059	29175	41512
Incl. Various debtors	58	83	450	640
Incl. Overpaid salaries	0	0	5853	8328
Incl. Advance payment of enterprise income tax	0	0	2350129	3343932
Incl. Security amounts in auction		0	53376	75947
Incl. Other overpaid taxes	0	0	33696	47945
Advance prepayment for services	28784	40956	0	0
Short-term loans to employees	0	0	0	0
Future periods payments	63905	90929	52570	74800
Incl. Press expenses	8682	12353	9507	13527
Incl. Miscellaneous	3642	5182	867	1234
Incl. Property insurance	43281	61583	42196	60039
Fixed capital investments difference	0	0	0	0
Auditor expenses	8300	11810	0	0
Total Debtors:	7901510	11242836	7163384	10192577

JSC " Liepājas metalurģs "

4. PROVISIONS

	Provisions for anticipated vacations (4318)		Provisions for doubtful debtors		Other provisions		Tax provisions	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
On 31.12.05	1405440	1999761	439122	624814	1450000	2063164	932333	1326590
Increase	500818	712600	321448	457379	1537734	2187998	478676	681095
Decrease	0	0	-243646	-346677	0	0	0	0
Repriced	0	0	-352	-501	0	0	0	0
On 31.12.05	1906258	2712361	516572	735016	2987734	4251162	1411009	2007685

**5. Taxes and social security payments
for 12 months of the year 2006**

Name of Tax	Balance as of 01.01.2006		Recorded for 12 months of 2006		Paid in 2006		Balance as of 31.12.2006	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax	0	0	317540	451819	317540	451819	0	0
Land Tax	0	0	35296	50222	35296	50222	0	0
Income tax	276600	393566	3687991	5247538	3644382	5185488	320209	455616
Social security tax	294097	418462	4414282	6280957	4309550	6131937	398829	567483
Business risk duty	1001	1424	8442	12012	8762	12467	681	969
Corporate Income tax	0	0	1658180	2359378	1372881	1953434	285299	405944
Natural resources tax	24867	35383	80063	113919	84644	120438	20287	28866
Packing tax	681	969	14634	20822	13095	18633	2220	3159
Value added tax	0	0	483	687	0	0	483	687
TOTAL	597246	849804	10216911	14537355	9786150	13924437	1028008	1462724

Joint-Stock Company “Liepājas metalurģs”

Annex to the Annual Report

1. Accounting Policy

Basis for Preparation of the Annual Report

The Annual Report is prepared in accordance with the law “On Accounting” and “On Annual Report”, as well as with the Latvian Accounting Standards (LAS): 1. LAS, “Financial Statements Preparation Principles”, 2. LAS, “Cash Flow Statement”, 3. LAS, “Events After the Balance Sheet Date”, 4. LAS “Changes in Accounting Policies, Amendments in Accounting Estimates and Prior Period Errors”, and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements. Profit and Loss Statement is prepared using the turnover method. The Cash Flow Statement has been presented, by establishing the cash flow from the core activity by the direct method. As compared to the previous reporting year, the Company’s methods used for reporting and valuation have not changed.

Accounting Principles Applied

The items of the Annual Report are evaluated by applying the following accounting principles:

- a) The assumption that the Company will continue its operations as a going concern;
- b) By applying the same valuation methods that were used in the previous year;
- c) The concept of prudence, which implies that valuation of items has been performed with due caution:
 - The Annual Report reflects only the profit earned by the closing date of the Balance;
 - The Report has been presented, taking into account all predictable risk amounts and losses incurred in the reporting year or in the previous years, also where they have become known in the period of time between the date of drawing up the Balance and the respective Annual Report;
 - All amounts that reduce the value, as well as depreciation amounts have been calculated and taken into account, irrespective of whether the reporting year has been completed with profit or losses;
- d) Revenues and expenditures related to the reporting year have been taken into account, irrespective of the date on which the payment was effected and the date of the receipt or drawing of the invoice. The expenditures are coordinated with revenues in the reporting period;
- e) Breakdowns of the Assets and Liabilities items have been calculated separately;
- f) Elements of the opening balance sheet items in the accounting year coincide with those presented in the closing balance of the previous year;
- g) All items, which could essentially affect the assessment or decision-making by the users of this Annual Report, have been presented;
- h) Business transactions in the Annual Report are reflected taking into account their economic nature and essence, not their legal form.

Use of Estimates

In the preparation of the Financial Statements, the management is obliged to base its opinion on definite estimates and assumptions, which impact the balances of the Balance Sheet and Profit and Loss Account items in the particular statements as well as the possible amount of liabilities. Future events can affect assumptions, based on which the respective estimates are made. Any impact of changes of estimates is reflected in the financial statement at the date when they are identified.

Recognition of Income and Net Turnover (Revenue)

Net turnover is the total sum of the value of goods sold during the year net of discounts and value added tax. Other income is recognized as follows:

- a) Income from rent/lease – on the date it is created;
- b) Income from fines and late payments – at the date of the receipt;
- c) Other.

Long-Term Intangible Assets and Fixed (Capital) Assets

Intangible assets and fixed assets are recorded at historical cost or revalue amount net of accumulated depreciation and accumulated impairment losses. Joint-Stock Company capitalizes Fixed Assets, which have a value greater than 500 LVL. Land depreciation is not calculated. Depreciation is calculated at the time of useful life of a particular asset, by using the straight-line method and applying the following depreciation rates fixed by the management:

Intangible assets	
Licenses and computer software	20 %
Fixed (Capital) Assets:	
Buildings and Structures	5 %
Technological Equipment and Machinery operated in harsh working environment or at the maximum load level	35 %
Transportation Vehicles and Equipment	20 %
Computers and Data Storage Equipment	35 %
Other Fixed Assets	30 %

In compliance with the International Valuation standards, BDO “Invest Rīga” conducted the Fixed Assets revaluation in order to provide support for the 2004 financial needs of the Joint-Stock Company. As a result of this revaluation the value increase was recorded, which is shown in the Shareholders Equity item called “Long-Term Assets Revaluation Reserve”. The Financial Statements record the revaluation based on the market valuation methods, i.e. the accumulated depreciation is liquidated as of the revaluation date and a defined value is accepted as its new report value.

Expenditures for current repairs and maintenance are incorporated in the Profit and Loss Statement for the period, in which they are incurred.

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Profit or loss from exclusion of fixed assets are calculated as a difference between book value of fixed assets and income gained as a result of their sale, and income from the respective fixed asset revaluation reserve write-off, and are included in the Profit and Loss Statement for the period in which it was created.

Costs due to improvements of leased property are capitalized and reflected as Fixed Assets. Depreciation of these assets is calculated over the whole lease period by applying the straight-line method.

Investment Properties

Investment properties refer to land and buildings kept by the company in order to receive rent from the lease of these property sites, as well as gain income resulting from an increase of value of the said real estate, instead of using it for industrial purposes, supply of goods or services, administrative functions or sale as part of daily business transactions.

Investment properties are initially valued at their cost value, including the cost of the respective transaction. After their initial recognition, investment properties are evaluated in their actual value, which corresponds to the current price of a similar property in similar location and condition and with similar lease contract terms. In cases, when such information is not available, the most recent possible prices in a less active market are used or current value for anticipated cash flow in the future is calculated, which is substantiated with the effective lease contracts and rates of rent for similar properties in the market. Actual value of property is established annually by a certified real estate appraiser from BDO "Invest Rīga".

Beginning from year 2006, profit or losses from adjustments of actual value of investment properties are reflected in the Profit and Loss Statement. Prior to year 2006, the changes in actual value of fixed assets were reflected in the long-term assets revaluation reserve under owner's equity.

The real estate which is being constructed and developed to use it as investment property is stated at historical cost and included in fixed assets as fixed assets under construction as long as it is not completed and put into operation as investment property.

Investments in Subsidiaries and Associated Companies

Investments in subsidiaries (i.e., in companies, in which the Company is holding more than 50% of share capital or which it is controlling in some other way) and associated companies (i.e., companies, in which the Company exercises significant influence but does not hold the controlling interest, in which it has a 20-50% stake of share capital) are entered in accounts by applying the cost method. After initial recognition, investments in subsidiaries and associated companies are entered in accounts in their initial value, less the losses due to reduction of value. The Company recognizes the revenues from its holding in equity only to the extent to which the Company receives the share of accumulated profit of the subsidiary or associated company, which is gained after the date of acquisition of capital shares/parts. The received part of profit, which exceeds such profit, is considered as recovery of investment and is regarded as reduction of initial value of investments.

Changes in Accounting Policy

In 2005, pursuant to the LR law "On annual reports", the Company changed its accounting policy with regards to the holding in equity of subsidiaries and related companies. Until 2004 including, the holding in the share capital of the subsidiary of the group, as well as the holding in the share capital of the associated company was initially presented at acquisition cost, after that, at the end of each accounting period, it was either increased or reduced in accordance with the changes of the value of the stake of holding in equity of the group subsidiary or associated company in the accounting year. Since 2005, holding in equity of subsidiaries and related companies is presented at acquisition costs. The new accounting policy related adjustments that were previously done to recognize the Company's proportionate share of subsidiaries and associated companies profit or loss after the date of acquisition and proportionate share of other changes in the equity of subsidiaries and associates have been adjusted to the opening balance of retained earning. These changes in the accounting policy had an affect on the shareholders' equity.

Currency Unit and Conversion of Foreign Currency

Values presented in these financial statements are expressed in the Latvian national currency – lats (LVL). All transactions in foreign currencies are converted into LVL according to the official currency rate fixed by the Bank of Latvia on the date the particular transaction is performed. Assets and liabilities expressed in foreign currencies are converted into LVL according to the currency rate fixed by the Bank of Latvia on the last date of the accounting period. Profit or losses due to foreign currency rate fluctuations are reflected in the Profit and Loss account for the respective accounting period in net value.

	31.12.2006	31.12.2005
USD	0.536	0.593
EUR	0.702804	0.702804

Cash and Its Equivalents

The Cash Flow Statement reflects cash and cash equivalents in the cash office, current bank account balances and short-term deposits

Long-Term and Short-Term Items

Long-term items incorporate amounts with a term of receipt, payment or write-off longer than one year since the end of the respective accounting year. The amounts to be received, paid or written off within one year's time are presented in short-term items.

Capitalization of Loan Payments and Other Payments

The value of incomplete construction sites is increased by the loan interest used for the formation of fixed assets and other direct costs incurred with regard to the particular construction site until putting the newly constructed object into use. Initial value of the respective fixed asset is not increased by the loan interest used for the formation of fixed assets in the periods, in which active development work on the unfinished construction site is not performed.

Accounts Receivable

Accounts receivable are presented in the balance sheet in their net value, by deducting specific provisions for bad and doubtful debts from initial value. Specific provisions for bad and doubtful debts are formed in cases when the management considers that recovery of these specifically separated accounts receivable is unlikely. The Joint-Stock Company has increased its factoring operations in its business. On a conservative basis, only the actual account receivable debt is presented in the Balance Sheet.

Finance Leases

The Company does not practice financial leasing.

Creditor Obligations

Are reflected in the costs

Research and Development Costs

Research costs are recognized in the Profit and Loss Statement for the period in which they were incurred. Development costs related to sale or development of an asset for own needs are capitalised in the balance sheet under intangible assets, which are recognized only in that case when the Company can prove that the completion of this intangible assets is technically possible in a way to enable its further sale or use to produce business benefits.

Evaluation of Stock

Stock is evaluated by using the weighted average cost method. Obsolete, slow-turnover or damaged stock is written-off. The stock inventory amount is checked during an annual cycle count.

Provisions for Unused Vacations

Reserves for unused vacations are established by taking a fraction of 1/12 from the next year anticipated wages expenses from the approved wage reserve in the 2007 budget of the Joint-Stock Company.

Corporate Income Tax

Corporate income tax in the reporting period includes current and deferred taxes. The corporate income tax has been stated in the Profit or Loss Statement.

Corporate income tax for the reporting period has been calculated in accordance with the requirements of the law of the Republic of Latvia "On corporate income tax", applying a 15% rate fixed by the law.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The temporary differences are related with the differences in the depreciation rates of reporting and tax depreciation and amortization on the Company's non-current assets, as well as with accruals for unused annual leave and with tax losses carried forward. The deferred tax was calculated by applying a 15% tax rate fixed by the law.

Reclassification of Items

In 2006, in accordance with the changes in the legislation and the opinion of the management, in order to improve the comparability of the prepared Profit and Loss Statement and the Balance Sheet, the classification of items has been changed (items are combined) in the Profit and Loss Statement. The item "Extraordinary Costs" is included in the item "Other Operating Costs". Reclassification (combination of items) does not have an impact on the financial result. In the statement for 2006 comparative indicators for 2005 are classified by applying the principles stipulated for 2006 and thus they are comparable. The enclosed deferred tax and vacation savings from the 2005 Balance Sheet item "Accrued Liabilities" have been moved to "Provisions".

Events After the Balance Sheet Date

There have been no events since the closing date of the Balance Sheet which could materially impact the financial condition of the Company.

Number of Employees

The average number of the LM employees in 2006 was 2700.

Council and Board Compensation

The compensation to the Council Members in 2006 was 228060 LVL (EUR 324500)

The compensation to the Board Members in 2006 was 166428 LVL (EUR 236806)

INDEPENDENT AUDITOR'S REPORT

To shareholder of "Liepājas Metalurģs" AS

Report on the financial statement

We have performed the audit of the consolidated financial statement incorporated in the annual report of "Liepājas Metalurģs" AS, registration No.40003014197, and its subsidiaries (hereinafter – Group) for the year 2006. The audited consolidated financial statement comprises the balance sheet as of 31 December 2006, the profit or loss account for the year 2006, the report on the changes in equity, and the cash flow statement for the year ended December 31, 2006, as well as a summary on the relevant accounting principles, as well as other explanatory information presented in the Appendix.

Management responsibility on the presentation of the financial statement

The management of "Liepājas Metalurģs" AS is responsible for drawing up of the financial statement and accuracy of the information contained in the said report presented pursuant to the International Financial Reporting Standards. This responsibility implies establishment, implementation and maintenance of such internal control that is to ensure the drawing up and true and fair presentation of the financial report that is free from material misstatement resulting from fraudulent activity or errors, selection and use of an appropriate accounting policy, as well as preparation of accounting estimates suitable in the particular conditions.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We performed the audit in accordance with the International Standards on Audit recognized in Latvia. These standards stipulate ethical norms to be observed by the auditor and require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

The audit includes procedures undertaken to obtain audit evidence on the amounts presented in the financial statements and the information disclosed. The procedures are selected based on the auditor's professional judgement, including assessment of risk of fraudulent misrepresentation or material discrepancies in the financial statement. When performing risk assessment, the auditor takes into account internal control established to ensure the drawing up of the financial statements and accurate presentation of information in the reports aimed at determining the most appropriate procedures in the particular situation, rather than expressing an opinion on the efficiency of control. The audit also includes general evaluation of whether the applied accounting principles and relevant management assumptions, as well as the information presented in the financial statements are reasonably justified.

We believe that the disclosures made in the course of our audit are sufficient and adequate to express our auditor's opinion.

Opinion

In our opinion, the consolidated financial statement presents fairly, in all material respects the financial position of the Group as of December 31, 2006, and of the results of its financial performance and cash flows for the year 2006 in accordance with the International Financial Reporting Standards.

Report on the conformity of the management report

We have familiarised ourselves with the management report for the year 2006, and have not disclosed any material discrepancies between the financial information presented in the management report and the consolidated financial statement for the year 2006.

BDO Invest Riga JSC
Certified auditors Commercial Company
Licence No. 112

D.Tunsts
International Liaison Partner



A.Putniņš
The responsible certified auditor
Certificate No.123

Riga, Latvia
April 27, 2007